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SUBJECT: GOVERNMENT COMMITS TO BOOST COMPETITIVENESS

¶1. Summary. President Arroyo convened a "Summit on Competitiveness" at which GRP and business leaders committed to a broad and impressive agenda of economic reforms developed in prior preparatory meetings. President Arroyo and five Cabinet officials, along with business and labor leaders, presented initiatives in education, public and private sector management, access to financing, transaction costs, infrastructure, and energy to improve the Philippines' competitiveness. The Summit demonstrated that Arroyo and her cabinet know what needs to be done and want to do it. However, despite the strong, concerted call for action, it will be difficult for the Philippines to achieve many of these ambitious goals. End Summary.

GRP ADDRESSES FALL IN COMPETITIVENESS

¶2. In her 2006 State of the Nation speech on July 24, President Arroyo announced a "comprehensive strategy for global competitiveness." Following two months of preparatory work on the part of her economic team, in conjunction with the private sector, Arroyo convoked a "National Competitiveness Summit" with representatives from the public and private sectors on October 6. Arroyo's initiative was sparked by the low competitiveness ranking the Philippines received in recent years from many organizations. The 2006 World Competitiveness Yearbook of the International Institute for Management Development ranked the Philippines 49th out of 61 economies; the World Bank ranked the country 126th out of 175 countries in its "Doing Business 2007" report; and the World Economic Forum put it 77th out of 117 countries in its most recent Global Competitiveness Report. Summit presenters called for improving the RP's position in these rankings as their most important indicator of success, and Ambassador Cesar Bautista, former Secretary of Trade and Industry and co-chair of the summit, declared a national goal of securing rankings in the top third of these surveys by 2010. President Arroyo delivered the keynote address after receiving the list of recommendations prepared in preparation for the summit in six areas of competitiveness: human resources, management, finance, transaction costs, infrastructure and energy.

HUMAN RESOURCES: RAISING EDUCATION STANDARDS AND SKILLS

¶3. Representatives of the Employers' Confederation and the Trade Union Congress blamed the country's high unemployment and underemployment on the lack to appropriate worker training. In particular, they said the decline in English proficiency had damaged the Philippines' comparative advantage for investments in call centers and business process outsourcing. They also pointed to a decline in the study of mathematics and engineering in the

educational system. Education Secretary Jesli Lapus said the GRP showed its commitment to improve education by proposing double digit increases in the budget for both 2006 and 2007. He also announced the government's intention to extend public schooling to 12 years from the present 10 years but did not announce a timetable or indicate whether secondary school would be compulsory for all students.

MANAGEMENT: REACHING FOR ISO

¶4. Private sector presenters announced plans for creation of a "roadmap" and a monitoring body to promote more efficient management in the private and public sectors, with a focus on improving management skills in municipal governments. They called for wider adoption of ISO-aligned management standards, and set a goal of implementation of ISO 9000 by 50 Philippine municipal governments by ¶2008.

FINANCING: SME ACCESS NEEDED

¶5. Central Bank (BSP) Governor Armando Tetangko said shortcomings in financial laws and markets made it difficult for small and medium-sized enterprises (SME) to access bank loans. Sergio Ortiz-Luis, President of the Philippine Exporters? Confederation, called for a credit bureau system that would facilitate credit checks on loan applicants. The Finance Core Group called for revised banking regulations that would encourage government financial institutions to loan directly to SME's.

TRANSACTION COSTS: REDUCING RED TAPE

¶6. Trade Secretary Favila announced policy changes that he said

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would reduce the time it takes to open a business from 48 days to 24 days. Favila said the Bureau of Customs would fully computerize its procedures to speed up customs clearance and reduce opportunities for corruption. The Bureau of Immigration drew applause from the business community for promising to simplify the process of procuring an Alien Certificate of Registration, and the Department of Foreign Affairs promised to introduce machine-readable passports.

INFRASTRUCTURE: PRIORITIZING INCREASES IN SPENDING

¶7. Meneleo Carlos, Chairman of the Federation of Philippine Industries, announced the GRP's commitment to increase spending on infrastructure from below 3% of GDP to above 5%, and unveiled a list of twenty priority infrastructure projects for completion by the end of 2007. These projects include five airport projects (including the opening of the mothballed new terminal at the Ninoy Aquino International Airport in Manila), four seaport projects, seven highway projects, six light rail projects, two water projects, and two telecommunications projects.

ENERGY ISSUES

¶8. Business association leaders urged the government to take prompt steps to reduce the cost of electricity. The private sector asked for a combination of immediate tax relief measures and longer-term action to hasten an open electricity market. Among its many proposals, the speakers sought reduction in the VAT on power from 12% to 5%, passage of the renewable energy bill to diversify energy sources and promote investment, and accelerated divestment of state-owned generating assets, which they noted was far behind the schedule dictated in the Electric Power Industry Reform Act (EPIRA) of 2001 of 70% privatization by the end of 2005.

COMMENT

¶9. The concerted high-level public-private focus on improving Philippine competitiveness is encouraging. International financial institutions applauded the reform pledges and said adoption of short-term measures would likely raise the country's rankings. Business leaders appreciated reducing the time needed to obtain licenses, but expressed skepticism the government will follow through on most of its commitments. Lasting improvements on complex problems like the electricity prices will require hard work over many years and significant political will.

Kenney